

Paint Valley Local School District

Ross County, Ohio

Single Audit

July 1, 2004 through June 30, 2005

Fiscal Year Audited Under GAGAS: 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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**Auditor of State
Betty Montgomery**

Board of Education
Paint Valley Local School District
Bainbridge, Ohio

We have reviewed the *Independent Auditor's Report* of the Paint Valley Local School District, Ross County, prepared by Balestra, Harr & Scherer, CPAs, Inc., for the audit period July 1, 2004 through June 30, 2005. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Paint Valley Local School District is responsible for compliance with these laws and regulations.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

May 8, 2006

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paint Valley Local School District (the School District), Ross County, as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the School District, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 3, 2006, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board
Paint Valley Local School District
Independent Auditor's Report
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of federal awards expenditures has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 3 to the basic financial statements, the School District implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*.



Balestra, Harr & Scherer CPAs, Inc.
April 3, 2006

Paint Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Paint Valley Local School District's (the "School District") discussion and analysis of the annual financial report provides a review of the financial performance for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's financial performance as a whole; readers should also review the notes to the basic financial statements and financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- The School District's assets exceeded its liabilities at June 30, 2005 by \$21,953,995.
- The School District's net assets of governmental activities decreased \$491,084.
- General revenues accounted for \$7,699,340 in revenue or 74 percent of all revenues. Program specific revenues in the form of charges for services and sales, operating grants and contributions and capital grants and contributions accounted for \$2,731,251 or 26 percent of total revenues of \$10,430,591.
- The School District had \$10,921,675 in expenses related to governmental activities; \$2,731,251 of these expenses were offset by program specific charges for services and sales, operating grants and contributions and capital grants and contributions.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. These statements are presented so that the reader can understand the School District's financial situation as a whole and also give a detailed view of the School District's financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the School District as a whole and present a longer-term view of the School District's finances. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as the amount of funds available for future spending. The fund financial statements also look at the School District's most significant funds with all other non-major funds presented in total in one column.

REPORTING THE SCHOOL DISTRICT AS A WHOLE

The analysis of the School District as a whole begins with the Statement of Net Assets and the Statement of Activities. These reports provide information that will help the reader to determine whether the School District is financially improving or declining as a result of the year's financial activities. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector companies. All current year revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes to those assets. This change informs the reader whether the School District's financial position, as a whole, has improved or diminished. In evaluating the overall financial health, the user of these financial statements needs to take into account non-financial factors that also impact the School District's financial well-being. Some of these factors include the condition of capital assets, and required educational support services to be provided.

In the Statement of Net Assets and the Statement of Activities, the School District has only one kind of activity.

- Governmental Activities. All of the School District's programs and services are reported here including instruction and support services.

Paint Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

REPORTING THE SCHOOL DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The analysis of the School District's funds begins on page 6. Fund financial statements provide detailed information about the School District's major funds – not the School District as a whole. Some funds are required by State law and bond covenants. Other funds may be established by the Treasurer with approval from the Board to help control, manage and report money received for a particular purpose or to show that the School District is meeting legal responsibilities for use of grants. The School District's major funds are the General Fund and the Classroom Facilities Fund.

Governmental Funds. Most of the School District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance educational support services. The relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

THE SCHOOL DISTRICT AS A WHOLE

As stated previously, the Statement of Net Assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets for 2005 compared to 2004.

Table 1 Net Assets		2005	2004*
Assets:			
Current Assets		\$5,522,957	\$5,604,632
Restricted Cash		683,348	538,667
Capital Assets, Net		20,666,036	21,141,688
Total Assets		26,872,341	27,284,987
Liabilities:			
Current and Other Liabilities		2,828,168	2,624,635
Long-Term Liabilities		2,090,178	2,215,273
Total Liabilities		4,918,346	4,839,908
Net Assets:			
Invested in Capital Assets, Net of Related Debt		18,924,311	19,271,768
Restricted		2,424,864	2,565,110
Unrestricted		604,820	608,201
Total Net Assets		\$21,953,995	\$22,445,079

*As Restated. See Note 3 to the basic financial statements.

Total net assets of the School District as a whole decreased \$491,084. Restricted Cash increased due to an increase in the set aside reserve for both the capital improvements and textbook reserve. Current assets decreased due to an increase in expenditures over revenues.

Paint Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Table 2 shows the changes in net assets for the fiscal year ended June 30, 2005.

Table 2
Change in Net Assets

	2005	2004*
Revenues		
Program Revenues:		
Charges for Services	\$742,385	\$681,258
Operating Grants & Contributions	1,975,551	1,931,169
Capital Grants & Contributions	13,315	37,695
Total Program Revenues	2,731,251	2,650,122
General Revenues:		
Taxes Levied for:		
General Purposes	1,255,971	1,221,434
Debt Service	135,624	144,815
Building Maintenance	24,870	27,071
Permanent Improvement	97,482	98,049
Grants and Entitlements, Not Restricted to Specific Programs	6,070,691	6,045,848
Gifts and Donations	0	3,600
Investment Earnings	91,184	48,390
Gain on Sale of Capital Assets	1,280	0
Miscellaneous	22,238	39,929
Rent	0	216
Total General Revenues	7,699,340	7,629,352
Total Revenues	10,430,591	10,279,474
Program Expenses		
Instruction		
Regular	4,822,232	\$4,631,548
Special	1,555,741	1,507,379
Vocational	1,628	2,307
Other	414,826	445,449
Support Services		
Pupils	286,963	284,588
Instructional Staff	232,995	208,313
Board of Education	124,082	142,906
Administration	635,643	618,650
Fiscal	250,670	318,946
Operation of Maintenance and Plant	1,092,734	1,037,473
Pupil Transportation	703,225	639,309
Central	4,534	6,008
Operation of Non-Instructional Services	425,573	364,957
Extracurricular Activities	273,961	302,388
Interest and Fiscal Charges	96,868	104,883
Total Expenses	10,921,675	10,615,104
Decrease in Net Assets	(491,084)	(335,630)
Net Assets at Beginning of Year	22,445,079	22,780,709
Net Assets at End of Year	\$21,953,995	\$22,445,079

*As Restated. See Note 3 to the basic financial statements.

Paint Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

Governmental Activities

Charges for services and sales comprised 7 percent of revenue for governmental activities, while operating grants and contributions comprised 19 percent of revenue for governmental activities, and capital grants and contributions comprised 0.1 percent of revenue for governmental activities of the School District for fiscal year 2005.

As indicated by governmental program expenses, instruction is emphasized. Regular instruction comprised 44 percent of governmental program expenses with special instruction comprising 14 percent of governmental expenses.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by unrestricted State entitlements and other general revenues.

Table 3
Total and Net Cost of Program Services
Governmental Activities

	2005		2004	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction	\$6,794,427	\$5,339,349	\$6,586,683	\$4,991,031
Support Services	3,330,846	2,735,421	3,256,193	2,642,149
Operation of Non-Instructional Services	425,573	(12,635)	364,957	64,961
Extracurricular Activities	273,961	49,518	302,388	181,412
Interest and Fiscal Charges	96,868	78,771	104,883	85,429
Total Expenses	\$10,921,675	\$8,190,424	\$10,615,104	\$7,964,982

THE SCHOOL DISTRICT'S FUNDS

Major funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and other financing sources of \$10,493,332 and expenditures and other financing uses of \$10,992,309. Of the School District's major funds, the net change in fund balance for the year was most significant in the General Fund.

The fund balance of the General Fund decreased by \$179,579. This decrease was primarily due to the School District having increased expenditures as compared to prior year.

General Fund Budgeting Highlights

The School District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund.

During 2005, there were two revisions to the General Fund budget. In part, these revisions increased appropriations by \$397,097 and increased the amended certificate by \$397,098. The Treasurer has been given the authority by the Board of Education to make line item adjustments within the budget. The General fund's ending unobligated cash balance was \$1,314,200 above the final budgeted amount.

Paint Valley Local School District
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2005

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the School District had \$20,666,036 invested in its capital assets. Table 4 shows the fiscal year 2005 balances compared to 2004.

Table 4
Capital Assets
(Net of Accumulated Depreciation)

	2005	2004
Land	\$35,188	\$35,188
Land Improvements	861,330	907,311
Buildings and Building Improvements	18,472,996	18,786,006
Furniture and Equipment	982,272	1,079,997
Vehicles	308,547	322,870
Infrastructure	5,703	5,952
Textbooks	0	4,364
Totals	<u>\$20,666,036</u>	<u>\$21,141,688</u>

Changes in capital assets from the prior year resulted from the addition of building improvements, vehicles, and depreciation expense. See Note 9 to the basic financial statements for more detailed information related to capital assets.

Debt

At June 30, 2005, the School District had three outstanding capital leases and one outstanding bond. The capital leases were for fitness equipment, furniture and fixtures, and copiers. The bond was for the School District to help finance the construction of an education complex. The outstanding amount totaled \$1,741,725. See Note 15 to the basic financial statements for more detailed information regarding debt.

CONTACTING THE SCHOOL DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the School District's financial condition and to show the School District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bob Ward, Treasurer, Paint Valley Local School District, 7454 State Route 50, Bainbridge, Ohio 45612.

Paint Valley Local School District
Statement of Net Assets
June 30, 2005

	Governmental Activities
ASSETS	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$3,439,126
Cash and Cash Equivalents with Fiscal Agents	336,262
Intergovernmental Receivable	90,651
Accounts Receivable	29,933
Taxes Receivables	1,626,985
Noncurrent Assets:	
Restricted Assets:	
Equity in Pooled Cash and Cash Equivalents	683,348
Non-Depreciable Capital Assets	35,188
Depreciable Capital Assets, net	20,630,848
Total Assets	26,872,341
 LIABILITIES	
Current Liabilities:	
Accounts Payable	32,284
Accrued Wages and Benefits	787,774
Intergovernmental Payable	330,237
Matured Compensated Absences	23,757
Deferred Revenue	1,418,280
Claims Payable	235,836
Noncurrent Liabilities:	
Long-Term Liabilities:	
Due Within One Year	165,671
Due in More Than One Year	1,924,507
Total Liabilities	4,918,346
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	18,924,311
Restricted For:	
Debt Service	176,884
Capital Outlay	1,340,776
Other Purposes	220,635
Nonexpendable	3,221
Set-Asides	683,348
Unrestricted	604,820
Total Net Assets	\$21,953,995

The notes to the basic financial statement are an integral part of this statement.

Paint Valley Local School District
Statement of Activities
For the Year Ended June 30, 2005

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction:					
Regular	\$4,822,232	\$218,722	\$289,750	\$3,201	(\$4,310,559)
Special	1,555,741	50,450	859,912	0	(645,379)
Vocational	1,628	92	0	0	(1,536)
Other	414,826	22,325	10,626	0	(381,875)
Support Services:					
Pupils	286,963	13,809	29,198	0	(243,956)
Instructional Staff	232,995	11,554	15,975	0	(205,466)
Board of Education	124,082	6,905	0	0	(117,177)
Administration	635,643	33,741	10,597	0	(591,305)
Fiscal	250,670	13,395	3,388	10,114	(223,773)
Operation and Maintenance of Plant	1,092,734	54,408	2,443	0	(1,035,883)
Pupil Transportation	703,225	34,431	351,212	0	(317,582)
Central	4,534	0	4,255	0	(279)
Operation of Non-Instructional Services	425,573	141,432	296,776	0	12,635
Extracurricular Activities	273,961	140,376	84,067	0	(49,518)
Interest and Fiscal Charges	96,868	745	17,352	0	(78,771)
Total Governmental Activities	\$10,921,675	\$742,385	\$1,975,551	\$13,315	(8,190,424)
General revenues:					
Taxes Levied For:					
					1,255,971
					135,624
					24,870
					97,482
					6,070,691
					91,184
					1,280
					22,238
					7,699,340
					(491,084)
					22,445,079
					\$21,953,995

The notes to the basic financial statement are an integral part of this statement.

Paint Valley Local School District
Balance Sheet
Governmental Funds
June 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>All Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:				
Equity in Pooled Cash and Cash Equivalents	\$1,339,720	\$896,993	\$914,679	\$3,151,392
Accounts Receivable	0	0	29,933	29,933
Interfund Receivable	32,555	0	0	32,555
Intergovernmental Receivable	0	0	53,771	53,771
Taxes Receivable	1,332,947	0	294,038	1,626,985
Restricted Assets:				
Equity in Pooled Cash and Cash Equivalents	<u>683,348</u>	<u>0</u>	<u>0</u>	<u>683,348</u>
<i>Total Assets</i>	<u>\$3,388,570</u>	<u>\$896,993</u>	<u>\$1,292,421</u>	<u>\$5,577,984</u>
LIABILITIES:				
Accounts Payable	\$28,787	\$0	\$3,497	\$32,284
Accrued Wages and Benefits	665,535	0	122,239	787,774
Interfund Payable	0	0	32,555	32,555
Intergovernmental Payable	287,179	0	43,058	330,237
Mature Compensated Absences Payable	23,757	0	0	23,757
Deferred Revenue	<u>1,190,688</u>	<u>0</u>	<u>270,512</u>	<u>1,461,200</u>
<i>Total Liabilities</i>	<u>2,195,946</u>	<u>0</u>	<u>471,861</u>	<u>2,667,807</u>
Equity:				
FUND BALANCES:				
Reserved:				
Reserved for Encumbrances	340,323	0	77,215	417,538
Reserved for Contributions	0	0	3,066	3,066
Reserved for Property Taxes	142,259	0	29,017	171,276
Reserved for Textbooks and Instructional Materials	637,782	0	0	637,782
Reserved for Capital Improvements	10,716	0	0	10,716
Reserved for Budget Stabilization	34,850	0	0	34,850
Unreserved, Designated:				
Designated for Budget Reserve	218,428	0	0	218,428
Unreserved, Undesignated, Reported in:				
General Fund	(191,734)	0	0	(191,734)
Special Revenue Funds	0	0	176,309	176,309
Debt Service Funds	0	0	158,297	158,297
Capital Projects Funds	0	896,993	376,501	1,273,494
Permanent Funds	<u>0</u>	<u>0</u>	<u>155</u>	<u>155</u>
<i>Total Fund Balances</i>	<u>1,192,624</u>	<u>896,993</u>	<u>820,560</u>	<u>2,910,177</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,388,570</u>	<u>\$896,993</u>	<u>\$1,292,421</u>	<u>\$5,577,984</u>

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Reconciliation of Total Governmental Fund Balances to
Net Assets of Governmental Activities
June 30, 2005

Total Governmental Fund Balances		\$2,910,177
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		20,666,036
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		
Taxes	37,429	
Intergovernmental	5,491	
Total	42,920	42,920
An internal service fund is used by management to charge the cost of insurance to individuals. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets		425,040
Long-Term Liabilities, including bonds, capital lease obligations, and the long-term portion of compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
Compensated Absences	(348,453)	
Capital Lease Obligations	(166,725)	
General Obligation Bonds	(1,575,000)	
Total	(2,090,178)	(2,090,178)
Net Assets of Governmental Activities		\$21,953,995

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2005

	General	Classroom Facilities	All Other Governmental Funds	Total Governmental Funds
REVENUES:				
Property Taxes	\$1,248,155	\$0	\$257,893	\$1,506,048
Intergovernmental	6,783,197	0	1,269,369	8,052,566
Interest	73,924	17,085	175	91,184
Tuition and Fees	460,307	0	0	460,307
Rent	270	0	0	270
Extracurricular Activities	0	0	140,376	140,376
Gifts and Donations	0	0	1,500	1,500
Customer Sales and Services	0	0	141,432	141,432
Miscellaneous	5,393	0	16,845	22,238
<i>Total Revenues</i>	<u>8,571,246</u>	<u>17,085</u>	<u>1,827,590</u>	<u>10,415,921</u>
EXPENDITURES:				
Current:				
Instruction:				
Regular	3,880,222	0	376,233	4,256,455
Special	939,893	0	658,107	1,598,000
Vocational	1,344	0	0	1,344
Other	402,552	0	12,274	414,826
Support Services:				
Pupils	250,635	0	37,773	288,408
Instructional Staff	221,651	0	20,667	242,318
Board of Education	152,982	0	0	152,982
Administration	629,722	0	15,719	645,441
Fiscal	246,084	0	9,272	255,356
Operation and Maintenance of Plant	1,020,289	0	3,160	1,023,449
Pupil Transportation	644,737	0	0	644,737
Central	0	0	4,534	4,534
Operation of Non-Instructional Services	36,962	0	397,776	434,738
Extracurricular Activities	166,987	0	108,754	275,741
Capital Outlay	33,191	0	419,595	452,786
Debt Service:				
Principal	101,386	0	60,000	161,386
Interest	13,719	0	83,149	96,868
<i>Total Expenditures</i>	<u>8,742,356</u>	<u>0</u>	<u>2,207,013</u>	<u>10,949,369</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(171,110)</u>	<u>17,085</u>	<u>(379,423)</u>	<u>(533,448)</u>
OTHER FINANCING SOURCES AND USES:				
Transfers In	0	0	42,940	42,940
Proceeds from Sale of Capital Assets	1,280	0	0	1,280
Inception of Capital Leases	33,191	0	0	33,191
Transfers Out	(42,940)	0	0	(42,940)
<i>Total Other Financing Sources and Uses</i>	<u>(8,469)</u>	<u>0</u>	<u>42,940</u>	<u>34,471</u>
<i>Net Change in Fund Balances</i>	(179,579)	17,085	(336,483)	(498,977)
<i>Fund Balance at Beginning of Year</i>	<u>1,372,203</u>	<u>879,908</u>	<u>1,157,043</u>	<u>3,409,154</u>
<i>Fund Balance at End of Year</i>	<u>\$1,192,624</u>	<u>\$896,993</u>	<u>\$820,560</u>	<u>\$2,910,177</u>

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2005*

Net Change in Fund Balances - Total Governmental Funds (\$498,977)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital Asset Additions	437,283	
Current Year Depreciation	(912,935)	
Total	(475,652)	(475,652)

Governmental funds only report the disposal of assets to the extent proceeds are received from the sale. In the statement of activities a gain or loss is reported for each disposal. This is the amount of the gain on the disposal of fixed assets.

Proceeds from Sale of Capital Assets	(1,280)	
Gain on Sale of Capital Assets	1,280	
Total	0	0

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Taxes	37,429	
Intergovernmental	(24,039)	
Total	13,390	13,390

New Capital lease obligations in the statement of revenues, expenditures, and changes in fund balances that are reported as other financing sources are not reported as revenues in the statement of activities. (33,191)

Repayment of bond principal are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 60,000

Repayment of capital leases obligations are expenditures in the governmental funds, but the repayment reduces liabilities in the statement of net assets and does not result in an expense in the statement of activities. 101,386

The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities. 166,900

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Increase in Compensated Absences	(3,100)	
Decrease in Intergovernmental Payable	178,160	
Total	175,060	175,060

Net Change in Net Assets of Governmental Activities (\$491,084)

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget and Actual (Budgetary Basis)
General Fund
For the Fiscal Year Ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
Total Revenues and Other Financing Sources	\$8,346,726	\$8,743,824	\$8,743,824	\$0
Total Expenditures and Other Financing Uses	<u>10,048,716</u>	<u>10,445,813</u>	<u>9,131,613</u>	<u>1,314,200</u>
Net Change in Fund Balance	(1,701,990)	(1,701,989)	(387,789)	1,314,200
Fund Balance at Beginning of Year	1,701,989	1,701,989	1,701,989	0
Prior Year Encumbrances Appropriated	<u>339,781</u>	<u>339,781</u>	<u>339,781</u>	<u>0</u>
Fund Balance (Deficit) at End of Year	<u><u>\$339,780</u></u>	<u><u>\$339,781</u></u>	<u><u>\$1,653,981</u></u>	<u><u>\$1,314,200</u></u>

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Fund Net Assets - Governmental Activities
Internal Service Fund
June 30, 2005

	Internal Service Fund
ASSETS:	
Current Assets:	
Equity in Pooled Cash and Cash Equivalents	\$287,734
Cash and Cash Equivalents with Fiscal Agents	336,262
Intergovernmental Receivable	36,880
<i>Total Assets</i>	660,876
LIABILITIES:	
Current Liabilities:	
Claims Payable	235,836
<i>Total Liabilities</i>	235,836
NET ASSETS:	
Unrestricted	425,040
<i>Total Net Assets</i>	\$425,040

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Revenues, Expenses and Changes in Fund Net Assets - Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	Internal Service Fund
REVENUES	
Charges for services	\$1,268,531
Total operating revenues	1,268,531
OPERATING EXPENSES	
Purchased services	169,328
Claims	932,303
Total operating expenses	1,101,631
Change in net assets	166,900
Net Assets at Beginning of Year	258,140
Net Assets at End of Year	\$425,040

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Cash Flows - Governmental Activities
Internal Service Fund
For the Fiscal Year Ended June 30, 2005

	<u>Internal Service Fund</u>
<i>Increase (Decrease) in Cash and Cash Equivalents</i>	
<i>Cash Flows from Operating Activities:</i>	
Cash Received from Customers	\$1,325,105
Cash Payments for Claims	(804,097)
Cash Payments for Purchased Services	<u>(169,328)</u>
<i>Net Cash Provided by Operating Activities</i>	351,680
Cash and Cash Equivalents at Beginning of Year	<u>272,316</u>
Cash and Cash Equivalents at End of Year	<u><u>\$623,996</u></u>
 <i>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</i>	
Operating Income	\$166,900
 <i>Changes in Assets and Liabilities:</i>	
Decrease in Intergovernmental Receivable	56,574
Increase in Claims Payable	<u>128,206</u>
<i>Net Cash Provided by Operating Activities</i>	<u><u>\$351,680</u></u>

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
June 30, 2005

	<u>Agency Fund</u>
ASSETS:	
Equity in Pooled Cash and Cash Equivalentts	<u>\$37,315</u>
<i>Total Assets</i>	<u><u>37,315</u></u>
LIABILITIES :	
Undistributed Monies	<u>37,315</u>
<i>Total Liabilities</i>	<u><u>\$37,315</u></u>

The notes to the basic financial statements are an integral part of this statement.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT AND REPORTING ENTITY

Paint Valley Local School District (the "School District") is organized under Article VI, Sections 2 and 3 of the Constitution of the State of Ohio. The School District operates under a locally-elected Board form of government consisting of five members elected at-large for staggered four year terms. The School District provides educational services as authorized by State statute and/or federal guidelines.

The School District was established in 1956 through the consolidation of existing land areas and school districts. The School District serves an area of approximately 121 square miles. It is located in Ross County, and includes all of the Villages of Bainbridge and Bourneville and portions of Paxton, Paint and Twin Townships. It is staffed by 45 non-certificated employees, 89 certificated full-time teaching personnel and 4 administrative employees who provide services to 1,182 students and other community members. The School District currently operates 3 instructional buildings and 1 bus garage.

Reporting Entity:

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the School District consists of all funds, departments, boards, and agencies that are not legally separate from the School District. For the School District, this includes general operations, food service and student related activities of the School District.

Component units are legally separate organizations for which the School District is financially accountable. The School District is financially accountable for an organization if the School District appoints a voting majority of the organizations governing board and (1) the School District is able to significantly influence the programs or services performed or provided by the organization; or (2) the School District is legally entitled to or can otherwise access the organizations resources; the School District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or the School District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the School District in that the School District approves the budget, the issuance of debt, or the levying of taxes. The School District has no component units.

The following entities which perform activities within the District's boundaries for the benefit of its residents are excluded from the accompanying financial statements because the School District is not financially accountable for these entities nor are they fiscally dependent on the School District.

- Parent Teacher Organization
- Athletic Boosters & Band Boosters
- Ross-Pike Educational Service District

The School District is associated with three jointly governed organizations: South Central Ohio Computer Association, Pickaway-Ross County Career and Technical Center, and Great Seal Education Network of Tomorrow. The School District is also associated with a claim servicing pool and an insurance purchasing pool: the Ross County School Employees Insurance Consortium and the Ohio School Boards Association Workers Compensation Group Rating Plan. These organizations are presented in Notes 16 and 17 to the basic financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the School District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The School District also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or after November 30, 1989, to its governmental activities and proprietary activities provided they do not conflict with or contradict GASB pronouncements. The more significant of the School District's accounting policies are described below.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis Of Presentation - Fund Accounting

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the School District as a whole. These statements include the financial activities of the primary government, except for the fiduciary funds.

The statement of net assets presents the financial condition of the governmental activities of the School District at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the School District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department, and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program; and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the School District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the School District.

Fund Financial Statements – During the fiscal year, the School District segregates transactions related to certain School District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the School District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

The School District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. The funds used by the School District can be classified using three categories: governmental, proprietary and fiduciary.

Governmental Funds:

Governmental funds are those through which most governmental functions of the School District are financed. Governmental fund reporting focuses on the sources, uses and balance of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the School District's major governmental funds:

General Fund – The General Fund is the operating fund of the School District and is used to account for all financial resources except those required to be accounted for in other funds.

Classroom Facilities Fund – The Classroom Facilities Fund is a fund provided to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Basis of Presentation - Fund Accounting (continued)

Proprietary Funds:

Proprietary funds are used to account for the School District's ongoing activities which are similar to those found in the private sector. The following is the School District's proprietary fund type:

Internal Service Fund - The internal service fund accounts for the financing of services provided by one department or agency to other departments or agencies of the School District on a cost reimbursement basis.

Fiduciary Funds:

Fiduciary funds are used to account for assets held by the School District in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds. These include a non-expendable trust fund and agency funds. Non-expendable trust funds are accounted for in essentially the same manner as proprietary funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The School District's only fiduciary funds are agency funds.

B. Measurement Focus and Basis of Accounting

Government-wide Financial Statements – The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the School District are included on the statement of net assets. The statement of activities accounts for increases (i.e., revenues) and decreases (i.e., expenditures) in total net assets.

Fund Financial Statements – All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, the proprietary fund is accounted for on a flow of economic resources measurement focus. All assets and liabilities associated with the operation of this fund are included on the statement of net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreased (i.e., expenses) in net total assets. The statement of cash flows provides information about how the School District finances and meets the cash flow needs of its proprietary activity.

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made. Government-wide financial statements and fund financial statements of the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Measurement Focus and Basis of Accounting (continued)

Revenues – Exchange and Non-exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the School District, available means expected to be received within sixty days of fiscal year end.

Non-exchange transactions, in which the School District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year for which taxes are levied (see Note 7). Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the School District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the School District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes available as an advance and grants.

Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Under the modified accrual basis of accounting, receivables that will not be collected within the available period have also been reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

The accrual basis of accounting is utilized for reporting purposes by the proprietary and fiduciary funds. Revenues are recognized in the accounting period which they are earned, and expenses are recognized at the time they are incurred.

Expenses/Expenditures

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for (1) principal and interest on general long-term debt, which is recorded when due, and (2) the costs of accumulated unpaid vacation, personal leave and sick leave are reported as fund liabilities upon the occurrence of employee resignations and retirements. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process

The budgetary process is prescribed by provisions of the Ohio Revised Code and entails the preparation of budgetary documents within an established timetable. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriation resolution, all of which are prepared on the budgetary basis of accounting. The certificate of estimated resources and the appropriations resolution are subject to amendment throughout the year with the legal restriction that appropriations cannot exceed estimated resources, as certified.

All funds, other than agency funds, are legally required to be budgeted and appropriated. The Self-Insurance Internal Service Fund has only the dental insurance portion of the fund budgeted and shown as part of the School District's cash activity; the medical insurance activity is handled by a fiscal agent and is therefore not budgeted. The primary level of budgetary control is at the fund level. Any budgetary modifications at this level may only be made by resolution of the Board of Education. Budgetary allocations at the function and object level within all funds are made by the School District Treasurer.

Tax Budget:

Prior to January 15, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The express purpose of this budget document is to reflect the need for existing (or increased) tax rates.

By no later than January 20, the Board-adopted budget is filed with the Ross County Budget Commission for rate determination.

Estimated Resources:

Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the County Budget Commission and receives the Commission's certificate of estimated resources which states the projected revenue of each fund. Prior to June 30, the School District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the appropriation measure. On or about July 1, the certificate is amended to include any unencumbered cash balances from the preceding year.

The certificate may be further amended during the year if projected increases or decreases in revenue are identified by the School District Treasurer. The amounts reported as the original budgeted amounts on the budgetary statement reflects the amounts on the certificate of estimated resources when the original appropriations were adopted. The amounts reported in the budgetary statement reflect amounts in the final amended certificate issued during fiscal year 2005. Before year end, the School District requested and received an amended certificate of estimated resources that reflected actual revenue for the fiscal year.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Budgetary Process (continued)

Appropriations:

Upon receipt from the County Auditor of an amended certificate of estimated resources based on final assessed values and tax rates or a certificate saying no new certificate is necessary, the annual appropriation resolution must be legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. Prior to the passage of the annual appropriation measure, the Board may pass a temporary appropriation measure to meet the ordinary expenses of the School District. The appropriation resolution, by fund, must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals at any level of control. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.

The Board may pass supplemental fund appropriations so long as the total appropriations by fund do not exceed the amounts set forth in the most recent certificate of estimated resources. During the year, two supplemental appropriations were legally enacted; however, these amendments were not significant.

The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by the Board during the year. Formal budgetary integration is employed as a management control device during the year for all funds other than agency funds and the self insurance fund, consistent with statutory provisions.

Encumbrances:

As part of formal budgetary control, purchase orders, contracts, and other commitments for the expenditure of monies are recorded as the equivalent of expenditures on the non-GAAP budgetary basis in order to reserve that portion of the applicable appropriation and to determine and maintain legal compliance. On the GAAP basis, encumbrances outstanding at fiscal year end are reported as a reservation of fund balance for subsequent-year expenditures for governmental funds

At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriation. Encumbered appropriations are carried forward to the succeeding fiscal year and are not reappropriated.

D. Cash and Cash Equivalents

To improve cash management, all cash received by the School District is pooled. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the School District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the balance sheet.

During fiscal year 2005, investments were limited to STAR Ohio and certificates of deposit. Except for nonparticipating investment contracts, investments are reported at fair value which is based on quoted market prices. Nonparticipating investment contracts such as nonnegotiable certificates of deposit are reported at cost.

The School District has invested funds in the State Treasury Asset Reserve of Ohio (STAR Ohio) during fiscal year 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office which allows governments within the State to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents (continued)

Following Ohio statutes, the Board of Education has, by resolution, specified the funds to receive an allocation of interest earnings. Interest revenue credited to the General Fund during fiscal year 2005 amounted to \$73,924. The Classroom Facilities Fund, Lunchroom Fund, and Non-Expendable Trust Fund also received \$17,085, \$9, and \$166, respectively.

For purposes of the statement of cash flows and for presentation on the balance sheet, investments of the cash management pool and investments with an original maturity of three months or less at the time they are purchased by the School District are considered to be cash equivalents.

E. Capital Assets

The School District's only capital assets are general assets. General capital assets are those assets specifically related governmental activities. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the fiscal year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of five thousand dollars. The School District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All reported capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Land Improvements	5 years
Buildings and Improvements	20-50 years
Furniture and Equipment	8 – 20 years
Vehicles	10 years
Infrastructure	50 years
Textbooks	5-15 years

F. Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employees' rights to receive compensation are attributable to services already rendered and it is probable that the School District will compensate the employees for the benefits through paid time off or some other means. The School District records a liability for accumulated unused vacation time when earned for all employees with more than one year of service.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the School District has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employees' wage rates at fiscal year end, taking into consideration any limits specified in the School District's termination policy. The School District records a liability for accumulated unused sick leave for all employees after 10 years of current service with the School District.

The entire compensated absences liability is reported on the government-wide financial statements.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Compensated Absences (continued)

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due to each period upon the occurrence of employee resignations and retirements. These amounts are recorded in the account "matured compensated absences payable" in the fund from which the employee will be paid.

G. Accrued Liabilities and Long-Term Liabilities

In general, governmental fund payables and accrued liabilities are reported as obligations of the funds regardless of whether they will be liquidated with current resources. However, compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund statements to the extent that they will not be paid with current available expendable financial resources. Payments made more than sixty days after year-end are considered not to have been paid with current available financial resources. The entire bonds and capital leases liabilities are reported as a liability in the government-wide financial statements.

H. Interfund Transactions

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers between governmental funds are eliminated in the statement of activities.

I. Restricted Assets

Restricted assets in the General Fund represent cash and cash equivalents whose use is limited by legal requirements. Restricted assets represent unexpended amounts required by statute to be set-aside by the School District for the purchase of textbooks, capital improvements and budget stabilization. See Note 19 for additional information regarding set-asides.

J. Fund Balance Reserves

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves are established for contributions, encumbrances, property taxes, textbooks and instructional materials, capital improvements and budget stabilization. The reserve for property taxes represents taxes recognized as revenue under accounting principles generally accepted in the United States of America but not available for appropriations under State statute.

K. Fund Designation

The School District designated \$34,850 for budget stabilization. See Note 19 for additional information regarding the budget stabilization set aside reserve.

L. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “Interfund Receivables” and “Interfund Payables.” These amounts are eliminated in the governmental activities column of the statement of net assets.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net assets restricted for other purposes include activities for food service operations, and federal and state grants restricted to expenditures for specified purposes.

The School District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 3 – CHANGES IN ACCOUNTING PRINCIPLE AND RESTATEMENT OF FUND BALANCE AND NET ASSETS

For the fiscal year 2005, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, and GASB Technical Bulletin No. 2004-2, *Recognition of Pension and Other Post-employment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modifies disclosure requirements for custodial credit risk on deposits. This statement applies to all state and local governments. GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as an expenditure/expense and as a liability each period by employers participating in a cost-sharing, multiple-employer pension and other post-employment benefit (OPEB) plans. The implementation of this bulletin and of GASB Statement No. 40 had no effect on the School District’s financial statements.

During the fiscal year, the School District returned a leased copier; the result of the return caused a restatement of \$9,313.

Net Assets, June 30, 2004	\$22,435,766
Returned Leased Copier	<u>9,313</u>
Net Assets, July 1, 2004	<u><u>\$22,445,079</u></u>

NOTE 4 - ACCOUNTABILITY

At June 30, 2005, the Disadvantaged Pupil Impact Aid, the Summer School Subsidy, the Chapter 1/Title 1 and the Class Size Reduction Special Revenue Funds had deficit fund balances of \$32,282, \$927, \$23,014, and \$7,784, respectively, which were created by the application of accounting principles generally accepted in the United States of America. The General Fund provides transfers to cover deficit balances; however, this is done when cash is needed rather than when accruals occur.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 5 - BUDGETARY BASIS OF ACCOUNTING

While the School District is reporting financial position, results of operations, and changes in fund balances on the basis of accounting principles generally accepted in the United States of America (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The statement of revenues, expenditures and changes in fund balances - budget and actual (budget basis) – the General Fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget.

The major differences between the budget basis and GAAP basis are that:

1. Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
2. Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
3. Encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

The following tables summarize the adjustments necessary to reconcile the GAAP and budgetary basis statements by fund type.

<u>Net Change in Fund Balance</u>	
	<u>General</u>
GAAP Basis	(\$179,579)
Revenue Accruals	138,107
Expenditure Accruals	22,795
Encumbrances	(369,112)
Budget Basis	<u>(\$387,789)</u>

NOTE 6 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the School District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the School District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current two year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit, or by savings accounts, including passbook accounts.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Interim monies may be deposited or invested in the following securities:

1. United States treasury notes, bills, bonds, or other obligations of or security issued by the United States treasury or any other obligation guaranteed as to the payment of principal and interest by the United States;
2. Bonds, notes, debentures, or other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above, provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bond and other obligations of the State of Ohio, its political subdivisions, or other units or agencies of this State or its political subdivisions;
5. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
7. The State Treasurer's investment pool (STAR Ohio);
8. Securities lending agreements in which the District lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2), or cash, or both securities and cash, equal value for equal value;
9. High grade commercial paper in an amount not to exceed five percent of the District's total average portfolio; and
10. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the District's total average portfolio.

Protection of the School Districts deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public money deposited with the institution.

Investments in stripped principal or interest obligations reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the School District, and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Cash on Hand – At fiscal year end, the School District had \$50 in undeposited cash on hand which is included on the balance sheet of the School District as part of “Equity in Pooled Cash and Cash Equivalents.”

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, *Deposits With Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

Deposits – The School District's deposits are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes deposits that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered deposits which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered deposits for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. For deposits, custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it.

At fiscal year end, the carrying amount of the School District's deposits was \$479,929 and the bank balance was \$398,500. Of the bank balance:

1. \$103,067 was covered by federal depository insurance (Category 1); and
2. \$295,433 was uninsured and uncollateralized (Category 3) and subject to custodial credit risk. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements could potentially subject the School District to a successful claim by the FDIC.

Investments – The School District's investments are required to be categorized to give an indication of the level of risk assumed by the School District at fiscal year end. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments which are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the School District's name. The School District's investments in STAR Ohio, an investment pool operated by the Ohio State Treasurer, are unclassified investments since they are not evidenced by securities that exist in physical or book entry form.

	Uncategorized	Carrying/Fair Value	Weighted Average Maturity (Years)
STAR Ohio	\$4,016,072	\$4,016,072	0
Total Investments	\$4,016,072	\$4,016,072	

Interest rate risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with the investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio.

Credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District limits their investments to STAR Ohio and certificates of deposit. Investments in STAR Ohio were rated AAAM by Standard & Poor's.

Concentration of credit risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The School District's investment policy places no limit on the amount it may invest in any one issuer. The School District has invested 100 percent in STAR Ohio.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 6 - DEPOSITS AND INVESTMENTS (Continued)

Custodial credit risk – Custodial credit risk is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District’s securities are either insured and registered in the name of the District or at least registered in the name of the District. The District’s investment policy does not address custodial credit risk.

The classification of cash and cash equivalents and investments on the financial statements is based on criteria set forth in GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

A reconciliation between the classifications of cash and cash equivalents and investments on the basic financial statements and the classification on deposits and investments presented above per GASB Statement No. 3 is as follows:

	Cash and Cash Equivalents/ Deposits	Investments
<i>GASB Statement No. 9</i>	\$4,496,051	\$0
Cash on Hand	(50)	0
STAR Ohio	(4,016,072)	4,016,072
<i>GASB Statement No. 3</i>	\$479,929	\$4,016,072

NOTE 7 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the School District’s fiscal year runs from July through June. First half tax collections are received by the School District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property located in the School District. Property tax revenue received during calendar year 2005 for real and public utility property taxes represents collections of calendar year 2004 taxes. Property tax payments received during calendar year 2005 for tangible personal property (other than public utility property) are for calendar year 2005 taxes.

2005 real property taxes are levied after April 1, 2005, on the assessed value as of January 1, 2005, the lien date. Assessed values are established by State law at thirty-five percent of appraised market value.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at thirty-five percent of true value. 2005 public utility property taxes became a lien December 31, 2004, are levied after April 1, 2005 and are collected in 2006 with real property taxes.

2005 tangible personal property taxes are levied after April 1, 2004, on the value as of December 31, 2004. Collections are made in 2005. Tangible personal property assessments are twenty-five percent of true value.

Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semiannually. If paid annually, payment is due April 30; if paid semiannually, the first payment is due April 30, with the remainder payable by September 20.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 7 - PROPERTY TAXES (continued)

The assessed values upon which fiscal year 2005 taxes were collected are:

	<u>2004 Second-Half Collections</u>		<u>2005 First-Half Collections</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/Residential and Other Real Estate	\$56,247,180	90.53%	\$60,759,570	91.15%
Public Utility	20,840	0.03%	23,590	0.03%
Tangible Personal Property	5,865,280	9.44%	5,877,380	8.82%
Total Assessed Value	<u>\$62,133,300</u>	<u>100.00%</u>	<u>\$66,660,540</u>	<u>100.00%</u>
 Tax rate per \$1,000 of assessed valuation	 \$35.50		 \$35.20	

The School District receives property taxes from Ross County. The County Auditor periodically advances to the School District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date the tax bills are sent.

Accrued property taxes receivable represents delinquent taxes outstanding and real property, tangible personal property, and public utility taxes which became measurable as of June 30, 2005. Although total property tax collections for the next fiscal year are measurable, only the amount available as an advance at June 30 is intended to finance current fiscal year operations. The receivable is therefore offset by a credit to deferred revenue for that portion not intended to finance current year operations. The amount available as an advance at June 30, 2005, was \$142,259 in the General Fund, \$2,946 in the Classroom Facilities Maintenance Non-Major Special Revenue Fund, \$15,290 in the Non-Major Debt Service Fund, and \$10,781 in the Permanent Improvement Non-Major Capital Projects Fund.

NOTE 8 - RECEIVABLES

Receivables at June 30, 2005, consisted of property taxes, tuition and fees, and intergovernmental. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current fiscal year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables is as follows:

Non-Major Funds	
Cafeteria/Lunchroom	\$30,092
Student Intervention	2,075
High Schools That Work	3,416
Special Education, Title VI-B	18,188
Total Non-Major Funds	<u>53,771</u>
Internal Service Fund	36,880
Total Intergovernmental Receivable	<u>\$90,651</u>

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 9 - CAPITAL ASSETS

A summary of the changes in capital assets during fiscal year 2005 follows:

	<u>Balance at 6/30/2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at 6/30/2005</u>
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$35,188	\$0	\$0	\$35,188
Total Capital Assets, Not Being Depreciated	<u>35,188</u>	<u>0</u>	<u>0</u>	<u>35,188</u>
Capital Assets, Being Depreciated				
Land Improvements	1,266,541	0	0	1,266,541
Buildings and Building Improvements	22,970,587	373,987	0	23,344,574
Furniture and Equipment	1,293,387	0	0	1,293,387
Vehicles	1,105,708	63,296	(20,000)	1,149,004
Infrastructure	6,222	0	0	6,222
Textbooks	357,341	0	0	357,341
Total Capital Assets, Being Depreciated	<u>26,999,786</u>	<u>437,283</u>	<u>(20,000)</u>	<u>27,417,069</u>
Accumulated Depreciation				
Land Improvements	(359,230)	(45,981)	0	(405,211)
Buildings and Building Improvements	(4,184,581)	(686,997)	0	(4,871,578)
Furniture and Equipment	(213,390)	(97,725)	0	(311,115)
Vehicles	(782,838)	(77,619)	20,000	(840,457)
Infrastructure	(270)	(249)	0	(519)
Textbooks	(352,977)	(4,364)	0	(357,341)
Total Accumulated Depreciation	<u>(5,893,286)</u>	<u>(912,935)</u>	<u>20,000</u>	<u>(6,786,221)</u>
Governmental Activities Capital Assets, Net	<u>\$21,141,688</u>	<u>(\$475,652)</u>	<u>\$0</u>	<u>\$20,666,036</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:	
Regular	\$678,684
Vocational	284
Support Services:	
Instructional Staff	4,364
Administration	13,716
Operation and Maintenance of Plant	109,257
Pupil Transportation	82,588
Operation of Non-Instructional Services	6,483
Extracurricular Activities	17,559
Total	<u>\$912,935</u>

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 10 - RISK MANAGEMENT

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2005, the School District contracted with Nationwide Insurance for property, liability and inland marine coverage and Indiana Insurance fleet insurance.

Coverages provided by Nationwide Insurance and Indiana Insurance are as follows:

Building and Contents-replacement cost (\$2,500 deductible)	\$31,334,739
Automobile Liability (\$250 deductible)	3,000,000
General Liability	
Per occurrence	1,000,000
Total per year	3,000,000

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant change in coverage from last year.

For fiscal year 2005, the School District participated in the Ohio School Boards Association Workers Compensation Group Rating Plan (GRP), an insurance purchasing pool (Note 17). The intent of the GRP is to achieve the benefit of a reduced premium for the School District by virtue of its grouping and representation with other participants in the GRP. The workers compensation experience of the participating school districts is calculated as one experience and a common premium rate is applied to all school districts in the GRP. Each participant pays its workers compensation premium to the State based on the rate for the GRP rather than its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of the GRP. A participant will then either receive money from or be required to contribute to the Equity Pooling Fund. This equity pooling arrangement insures that each participant shares equally in the overall performance of the GRP. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Gates McDonald & Co. provides administrative, cost control and actuarial services to the GRP.

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The School District is a member the Ross County School Employees Insurance Consortium, a claims servicing pool, consisting of eighteen school districts within Ross County and its surrounding area, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the School District's behalf. The claims liability of \$235,836 reported in the internal service fund at June 30, 2005 is based on an estimate provided by the third party administrator and the requirements of GASB Statement No. 10 which requires that a liability for unpaid claim costs, including estimates of costs relating to incurred but not reported claims, be reported. The estimate was not affected by incremental claims adjustments expenses and does not include other allocated or unallocated claims adjustment expenses.

Changes in claims activity for the fiscal year follows:

	Balance at Beginning of Year	Current Year Claims	Claims Payments	Balance at End of Year
2003	\$196,011	\$742,589	\$847,127	\$91,473
2004	91,473	745,639	729,482	107,630
2005	107,630	932,303	804,097	235,836

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS

School Employees Retirement System

The School District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing multiple employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State statute per Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3746 or by calling (614)222-5853.

Plan members are required to contribute 10% of their annual covered salary and the School District is required to contribute at an actuarially determined rate. The current rate is 14% of annual covered payroll. For fiscal year 2005, 10.57% was the portion allocated to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to statutory maximum amounts, by the SERS' Retirement Board. The School District's required contributions for pension obligations to SERS for the years ended June 30, 2005, 2004, and 2003 were \$165,522, \$71,192, and \$35,378, respectively. 18% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$135,627 represents the unpaid contribution for fiscal year 2005.

State Teachers Retirement System

The School District contributed to the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing multiple employer defined benefit pension plan. STRS Ohio is a statewide retirement plan for licensed teachers and other faculty members employed in the public schools of Ohio or any school, college, university, institution or other agency controlled, managed and supported in whole or in part, by the state or any political subdivision thereof. STRS Ohio provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS Ohio issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3371.

Plan Options – Effective July 1, 2001, two new plan options were offered to selected members. New members have a choice of three retirement plan options. In addition to the Defined Benefit (DB) Plan, new members are offered a Defined Contribution (DC) Plan and a Combined Plan. The DC Plan allows members to allocate all their member contributions and employer contributions equal to 10.5% of earned compensation. The Combined Plan offers features of the DC Plan and the DB Plan. In the Combined Plan, member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment at a reduced level from the regular DB Plan. Contributions into the DC Plan and the Combined Plan are credited to member accounts as employers submit their payroll information to STRS Ohio, generally on a biweekly basis. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

DB Plan Benefits – Plan benefits are established under Chapter 3307 of the Revised Code. Any member may retire who has (i) five years of service credit and attained age 60; (ii) 25 years of service credit and attained age 55; or (iii) 30 years of service credit regardless of age. The annual retirement allowance, payable for life, is the greater of the “formula benefit” or the “money-purchase benefit” calculation. Under the “formula benefit,” the retirement allowance is based on years of credited service and final average salary, which is the average of the member’s three highest salary years. The annual allowance is calculated by using a base percentage of 2.2% multiplied by the total number of years of service credit (including Ohio-valued purchased credit) times the final average salary. The 31st year of earned Ohio service credit is calculated at 2.5%. An additional one-tenth of a percent is added to the calculation of every year of earned Ohio service over 31 years (2.6% for 32 years, 2.7% for 33 years and so on) until 100% of final average salary is reached. For members with 35 or more years of Ohio contributing service, the first 30 years will be calculated at 2.5% instead of 2.2%. Under the “money-purchase benefit” calculation, a member’s lifetime contributions plus interest at specified rates are matched by an equal amount from other STRS Ohio funds. This total is then divided by an actuarially determined annuity factor to determine the maximum annual retirement allowance.

DC Plan Benefits – Benefits are established under Sections 3307.80 to 3307.89 of the Revised Code. For members who select the DC Plan, all member contributions and employer contributions at a rate of 10.5% are placed in an investment account. The member determines how to allocate the member and employer money among various investment choices. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The member may elect to receive a lifetime monthly annuity or a lump-sum withdrawal. Employer contributions into members’ accounts are vested after the first anniversary of the first day of paid service. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member’s designated beneficiary is entitled to receive the member’s account balance.

Combined Plan Benefits – Member contributions are allocated by the member, and employer contributions are used to fund a defined benefit payment. A member’s defined benefit is determined by multiplying 1% of the member’s final average salary by the member’s years of service credit. The defined benefit portion of the Combined Plan payment is payable to a member on or after age 60. The defined contribution portion of the account may be taken as a lump sum or converted to a lifetime monthly annuity at age 50.

A retiree of STRS Ohio or another Ohio public retirement system is eligible for reemployment as a teacher following the elapse of two months from the date of retirement. Contributions are made by the reemployed member and employer during the reemployment. Upon termination of reemployment or age 65, whichever comes later, the retiree is eligible for a money-purchase benefit or a lump-sum payment in addition to the original retirement allowance.

Benefits are increased annually by 3% of the original base amount.

The Defined Benefit and Combined Plans offer access to health care coverage to eligible retirees who participated in the plans and their eligible dependents. Coverage under the current program includes hospitalization, physicians’ fees, prescription drugs and partial reimbursement of monthly Medicare Part B premiums. By Ohio law, health care benefits are not guaranteed.

A Defined Benefit or Combined Plan member with five or more years’ credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. A death benefit of \$1,000 is payable to the beneficiary of each deceased retired member who participated in the Defined Benefit Plan. Death benefit coverage up to \$2,000 can be purchased by participants in the DB, DC or Combined Plans. Various other benefits are available to members’ beneficiaries.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 11 - DEFINED BENEFIT PENSION PLANS (Continued)

State Teachers Retirement System (Continued)

For fiscal year 2005, plan members are required to contribute 10% of their annual covered salaries. The School District was required to contribute 14%. Contribution rates are established by STRS Ohio, upon recommendations of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The School District's required contributions for pension obligations to STRS Ohio for the fiscal years ended June 30, 2005, 2004, and 2003 were \$577,336, \$539,683, and \$422,686, respectively; 83% has been contributed for fiscal year 2005 and 100% for fiscal years 2004 and 2003. \$99,532 represents the unpaid contribution for fiscal year 2005 and is recorded as a liability within the respective funds.

NOTE 12 - POSTEMPLOYMENT BENEFITS

The School District provides comprehensive health care benefits to retired teachers and their dependents through the State Teachers Retirement System (STRS), and to retired non-certified employees and their dependents through the School Employees Retirement System (SERS). Benefits include hospitalization, physicians' fees, prescription drugs and reimbursement of monthly Medicare premiums. Benefit provisions and the obligations to contribute are established by the Systems based on authority granted by State statute. Both systems are on a pay-as-you-go basis.

All STRS benefit recipients and sponsored dependents are eligible for health care coverage. The STRS Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By law, the cost of coverage paid from STRS funds is included in the employer contribution rate, currently 14% of covered payroll. For the fiscal year 2005, the STRS Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve Fund. For the School District, this amount equaled \$4,778 for fiscal year 2005.

STRS pays health care benefits from the Health Care Stabilization Fund. At June 30, 2005, the balance in the Fund was \$3.3 billion. For the year ended June 30, 2005, net health care costs paid by STRS were \$254,780,000 and STRS had 115,395 eligible benefit recipients.

The Ohio Revised Code gives SERS the discretionary authority to provide postretirement health care to retirees and their dependents. Coverage is made available to service retirees with ten or more fiscal years of qualifying service credit, disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

After the allocation for basic benefits, the remainder of the employer's 14% contribution is allocated to providing health care benefits. In addition, SERS levies a surcharge to fund health care benefits equal to 14 percent of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay was established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund. For the School District, the amount contributed to fund health care benefits, including the surcharge, during the 2005 fiscal year equaled \$118,099.

The target level for the health care reserve is 150 percent of the annual health care expenses. Expenses for health care for the fiscal year ended June 30, 2005, were \$178,221,113 and the target level was \$267.3 million. At June 30, 2005, SERS had net assets available for payment of health care benefits of \$267.5 million. SERS has approximately 58,123 participants currently receiving health care benefits.

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 13 - EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave components are derived from negotiated agreements and State laws. Classified employees earn ten to twenty days of vacation per fiscal year, depending upon length of service. Accumulated, unused vacation time is paid to classified employees and administrators upon termination of employment. Teachers do not earn vacation time. Teachers, administrators, and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to a maximum of 225 days for all personnel. Upon retirement, payment is made for thirty percent of accrued, but unused sick leave credit to a maximum of 60 days.

B. Life and Accident Insurance

The School District provides life insurance and accidental death and dismemberment insurance to most employees through Cairnstone, Inc. The School District has elected to provide employee medical/surgical and prescription drug benefits through the Ross County Insurance Consortium. The employees share the cost of the monthly premium with the board. The premium varies with employee depending on the terms of the union contract.

NOTE 14 - CAPITAL LEASES - LESSEE DISCLOSURE

During fiscal year 2005, the School District entered into a new capital lease for a copier. In previous fiscal years, the School District entered into capital leases for equipment and furniture and fixtures. Each lease meets the criteria of a capital lease as defined by Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, which defines a capital lease generally as one which transfers benefits and risks of ownership to the lessee. Capital lease payments have been reclassified and are reflected as debt service expenditures in the financial statements for the governmental funds. These expenditures are reported as function expenditures on the budgetary statement.

The gross amount of capital leases being disclosed in Note 9 under furniture and equipment totals \$453,688.

The following is a schedule of the future long-term minimum lease payments required under the capital leases and the present value of the minimum lease payments as of June 30, 2005.

Fiscal Year Ending June 30,	<u>Amount</u>
2006	\$109,951
2007	39,292
2008	21,083
2009	8,076
2010	<u>7,403</u>
Total	185,805
Less Amount Representing Interest	<u>(19,080)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$166,725</u></u>

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 15 - LONG-TERM OBLIGATIONS

The changes in the School District's long-term obligations during fiscal year 2005 were as follows:

	Principal Outstanding 6/30/04	Additions	Deductions	Principal Outstanding 6/30/05	Amount Due Within One Year
School Improvement General Obligation					
Bonds 5.25%	\$1,635,000	\$0	\$60,000	\$1,575,000	\$65,000
Capital Leases*	234,920	33,191	101,386	166,725	100,671
Compensated Absences	345,353	348,453	345,353	348,453	0
Total General Long-Term Obligations	\$2,215,273	\$381,644	\$506,739	\$2,090,178	\$165,671

*As Restated- See Note 3

On July 10, 1998, the School District issued long-term general obligation bonds in the amount of \$1,945,800, as a result of the School District being approved for a \$15,430,564 school facilities loan through the State Department of Education for the construction of an education complex. The 5.25% bonds will be retired in December 2021 and are being paid from the debt service fund. As a requirement of the loans, the School District was required to pass a 3.7 mill levy. The 3.7 mill levy, of which .25 mill was to be used for the retirement of the loan and .25 mill was to be used for maintenance, with the balance of 3.2 mills to be used for the retirement of the long-term bonds issued, will be in effect for twenty-three years.

The School District has been notified by the Ohio School Facilities Commission that they will not be responsible for repaying the \$15,430,564 classroom facilities loan to the State because the School District's adjusted valuation per pupil (currently 437 out of 611 schools) was less than the state-wide median adjusted valuation per pupil. In lieu of the repayment, the School District must set aside the funds that would have been used for repayment for facilities maintenance. As part of this process, the School District must submit a maintenance plan to the Ohio School Facilities Commission every five years until the twenty-three year period expires. If the School District's adjusted valuation per pupil increases above the state-wide median adjusted valuation during the twenty-three year period, the School District may become responsible for repayment of a portion of the State's contribution.

Capital leases will be paid from the General Fund. The compensated absences liability will be paid from the funds from which the employees' salaries are paid.

The School District's overall legal debt margin was \$4,424,449 with an unvoted debt margin of \$66,661.

Principal and interest requirements to retire general obligation debt outstanding at June 30, 2005, are as follows:

Year	Principal	Interest	Total
2006	\$65,000	\$79,868	\$144,868
2007	70,000	76,324	146,324
2008	70,000	72,649	142,649
2009	80,000	68,711	148,711
2010	75,000	64,642	139,642
2011-2015	470,000	255,459	725,459
2016-2020	605,000	118,170	723,170
Thereafter	140,000	3,640	143,640
Totals	\$1,575,000	\$739,463	\$2,314,463

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

South Central Ohio Computer Association - The School District is a participant in the South Central Ohio Computer Association (SCOCA) which is a computer consortium. SCOCA is an association of public school districts within the boundaries of Highland, Adams, Pike, Scioto, Brown, Ross, Jackson, Vinton and Lawrence Counties. The organization was formed for the purpose of applying modern technology with the aid of computers and other electronic equipment to administrative and instructional functions among member school districts. The governing board of SCOCA consists of two representatives from each of the participating member counties, two school treasurers, plus one representative from the fiscal agent. The School District paid SCOCA \$83,920 for services provided during the year. Financial information can be obtained from their fiscal agent, the Pike County CTC District Treasurer, at P.O. Box 577, 23365 St. Rt. 124, Piketon, Ohio 45661.

Pickaway-Ross County Career and Technical Center (CTC) - The Pickaway-Ross County CTC is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of eleven representatives from the various City and County Boards within Pickaway and Ross Counties, each of which possesses its own budgeting and taxing authority. The School District did not have any financial transaction with the CTC during the fiscal year. The School District paid \$2,937 for services provided during the year. To obtain financial information write to the Pickaway-Ross County CTC, Ben Vanhorn, who serves as Treasurer, at 895 Crouse Chapel Road, Chillicothe, Ohio 45601.

Great Seal Education Network of Tomorrow - The Great Seal Education Network of Tomorrow is a regional council of governments (the Council) consisting of twelve city, local, and joint vocational school districts, two educational service centers and the Ohio University-Chillicothe Campus for the purpose of promoting the use of advanced telecommunications and technology to provide enhanced educational opportunities to the communities of Ross and Pickaway Counties. The Council is operated under the direction of a Board of Directors consisting of one representative (the superintendent or another person appointed by the board of education) of each of the members, each of which possess its own budgeting and taxing authority. The School District did not pay for any services provided during the year. To obtain financial information, write to the Ohio University-Chillicothe Campus, who acts as fiscal agent, at 571 West Fifth Street, Chillicothe, Ohio 45601.

NOTE 17 - CLAIMS SERVICING AND INSURANCE PURCHASING POOLS

Ross County School Employees Insurance Consortium - The School District is a member of the Ross County School Employees Insurance Consortium (the Consortium), a claims servicing pool consisting of fourteen school districts within Ross County and its surrounding area. The Consortium provides medical/surgical, dental, vision, or life insurance through a third party administrator, Medical Mutual of Ohio, depending on which coverages the individual member district chooses. The Consortium business and affairs are managed by a Council consisting of one representative for each participating school. The participating school districts pay an administrative fee to the fiscal agent to cover the costs of administering the Consortium. To obtain financial information, write to the Westfall Local School District, 19463 Pherson Pike, Williamsport, Ohio 43164-9745.

Ohio School Boards Association Workers Compensation Group Rating Plan - The School District participates in the Ohio School Boards Association Workers Compensation Group Rating Plan (GRP), an insurance purchasing pool. The GRP's business and affairs are conducted by a three member Board of Directors consisting of the President, the President-Elect and the Immediate Past President of the OSBA. The Executive Director of the OSBA, or his designee, serves as coordinator of the program. Each year, the participating school districts pay an enrollment fee to the GRP to cover the costs of administering the program.

NOTE 18 - SCHOOL FUNDING

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school-funding scheme that is thorough and efficient..."

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 18 - SCHOOL FUNDING (continued)

On March 4, 2003, the Plaintiffs filed a motion with the Common Pleas Court of Perry County requesting that such Court schedule and conduct a conference to address the State's compliance with the orders of such Court and the Supreme Court. On May 16, 2003, the Ohio Supreme Court granted a Writ of Prohibition as filed by the State and ordered the Common Pleas Court of Perry County to dismiss the motion for a compliance conference. The Ohio Supreme Court further stated again its ruling made on December 11, 2002.

The School District is currently unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

NOTE 19 - SET-ASIDE CALCULATIONS AND FUND RESERVES

The School District is required by State statute to annually set aside in the General Fund an amount based on a statutory formula for the purchase of textbooks and other instructional materials and an equal amount for the acquisition or construction of capital improvements. Amounts not spent by year-end or offset by similarly restricted resources received during the year must be held in restricted cash at year-end and carried forward to be used for the same purposes in future years.

For fiscal year ended June 30, 2005, the School District was no longer required to set aside funds in the budget reserve set-aside, with the exception of monies received from the Bureau of Workers Compensation, which must be retained for budget stabilization or spent for specified purposes. The balance of the budget stabilization reserve, \$34,850, which did not represent BWC rebates or refunds has been recorded as a fund designation in the General Fund and will be used in accordance with Section 5705.13 of the Revised Code.

The following cash basis information describes the change in the year-end set-aside amounts for textbooks, capital acquisition and budget stabilization. Disclosure of this information is required by State statute.

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>Budget Stabilization</u>
Set-aside Reserve Balance as of June 30, 2004	\$496,638	\$7,179	\$34,850
Current Year Set-aside Requirement	141,144	141,144	0
Current Year Disbursements	0	(137,607)	0
Set-Aside Balance Carried Forward to Future Fiscal Years	<u>\$637,782</u>	<u>\$10,716</u>	<u>\$34,850</u>
Set-aside Reserve Balance as of June 30, 2005	<u>\$637,782</u>	<u>\$10,716</u>	<u>\$34,850</u>

Paint Valley Local School District
Notes to the Basic Financial Statements
For the Fiscal Year Ended June 30, 2005

NOTE 20 - INTERFUND ACTIVITY

Interfund Payables/Receivables

As of June 30, 2005, receivables and payables that resulted from various interfund transactions were as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Funds:		
General Fund	\$32,555	\$0
Non-Major Funds:		
Fresh Fruit/Vegetable Fund	0	30,092
Summer School Subsidy	0	2,463
Total Non-Major Funds	0	32,555
Totals	\$32,555	\$32,555

During the year, the School District's General Fund made advances to other funds in anticipation of intergovernmental grant revenue.

Interfund Transfers

During the fiscal year ended June 30, 2005, transfers that resulted from various interfund transactions were as follows:

	<u>Transfer From</u>	<u>Transfer To</u>
Major Funds:		
General Fund	\$42,940	\$0
Non-Major Funds:		
Cafeteria/Lunchroom Fund	0	41,000
Athletic Department Fund	0	1,940
Total	\$42,940	\$42,940

During the year, the School District's General Fund made a transfer to the Cafeteria/Lunchroom and Athletic Department Funds to cover expenditures incurred by the Cafeteria/Lunchroom Fund and Athletic Department Funds not covered by user charges or athletic gate receipts, respectively.

NOTE 21 - CONTINGENCIES

Grants

The School District received financial assistance from federal and state agencies in the form of grants. The expenditure of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the School District at June 30, 2005.

Litigation

The School District's attorney estimates that all other potential claims against the District not covered by insurance resulting from all other litigation would not materially affect the financial statements of the District.

Paint Valley Local School District
Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2005

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Disbursements	Non-Cash Disbursements
<u>United States Department of Agriculture</u>						
<i>Passed through Ohio Department of Education</i>						
<i>Nutrition Cluster:</i>						
Food Donation	N/A	10.550	\$0	\$24,846	\$0	\$24,846
School Breakfast Program	05PU	10.553	40,005	0	40,005	0
National School Lunch Program	LLP4	10.555	139,909	0	139,909	0
Total Nutrition Cluster			179,914	24,846	179,914	24,846
Team Nutrition Grants	TWSU	10.574	0	0	6,368	0
Total United States Department of Agriculture			179,914	24,846	186,282	24,846
<u>United States Department of Education</u>						
<i>Passed through Ohio Department of Education</i>						
Title I Grants to Local Educational Agencies	C1S1/C1SD	84.010	420,902	0	403,688	0
Special Education-Grants to States	6BSF/6BSD	84.027	253,865	0	245,834	0
Safe and Drug Free Schools and Communities-State Grants	DRS1	84.186	8,647	0	10,647	0
Eisenhower Grant	MSS1	84.281	0	0	300	0
State Grants for Innovative Programs	C2S1	84.298	5,140	0	5,140	0
Education Technology State Grants	TJS1	84.318	8,268	0	14,861	0
Improving Teacher Quality State Grant	TRS1	84.367	70,074	0	75,768	0
Total United States Department of Education			766,896	0	756,238	0
Total Federal Financial Assistance			\$946,810	\$24,846	\$942,520	\$24,846

N/A=Not Available

See accompanying notes to schedule of federal awards expenditures.

Paint Valley Local School District
Notes to the Schedule of Federal Awards Expenditures
For the Fiscal Year Ended June 30, 2005

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of federal awards expenditures is a summary of the activity of the School District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B – FOOD DISTRIBUTIONS

Program regulations do not require the School District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported on the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.

BALESTRA, HARR & SCHERER CPAs, INC.

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Ohio Society of Certified Public Accountants

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Paint Valley Local School District (the School District), as of and for the year ended June 30, 2005, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated April 3, 2006, in which we indicated the School District adopted GASB Statement No. 40 and GASB Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Members of the Board
Paint Valley Local School District
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance with *Government Auditing Standards*
Page 2

This report is intended solely for the information and use of management, members of the Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Balestra, Harr & Scherer". The signature is written in black ink on a light-colored background.

Balestra, Harr & Scherer CPAs, Inc.
April 3, 2006

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Board
Paint Valley Local School District
7454 US Route 50
Bainbridge, Ohio 45612

Compliance

We have audited the compliance of Paint Valley Local School District (the School District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133, Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2005. The School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the School District's management. Our responsibility is to express an opinion on the School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the School District's compliance with those requirements.

In our opinion, the School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the fiscal year ended June 30, 2005.

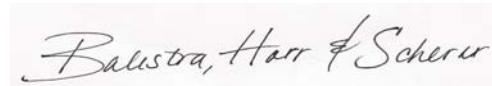
Internal Control Over Compliance

The management of the School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, members of the Board, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Balestra, Harr & Scherer CPAs, Inc.

April 3, 2006

Paint Valley Local School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2005

Summary of Auditor's Results

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(iii)	Was there any reported noncompliance at the financial statement level (GAGAS)?	No
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under Section .510?	No
(d)(1)(vii)	Major Program(s) (list):	CFDA # 84.010 – Title I Grants to Local Educational Agencies
(d)(1)(viii)	Dollar Threshold: Type A/B Program	Type A: > \$300,000 Type B: all others
(d)(1)(ix)	Low Risk Auditee?	Yes

Paint Valley Local School District
Schedule of Findings and Questioned Costs
OMB Circular A-133 Section .505
For the Fiscal Year Ended June 30, 2005

Finding Related to the Financial Statements Required to be Reported in Accordance With GAGAS

None

Findings and Questioned Costs For Federal Awards

None



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Betty Montgomery**

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PAINT VALLEY LOCAL SCHOOL DISTRICT

ROSS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 18, 2006**